

OPEN MEETING ITEM

COMMISSIONERS
BOB STUMP – Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH



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ARIZONA CORPORATION COMMISSION

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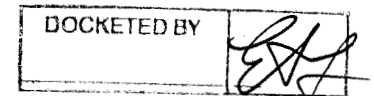
Arizona Corporation Commission

DOCKETED

SEP 29 2014

TO ALL PARTIES:

ORIGINAL



Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Opinion and Order on:

COPPER VALLEY TELEPHONE, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

OCTOBER 8, 2014

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

OCTOBER 16, 2014

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

JODI JERICH
EXECUTIVE DIRECTOR

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 BOB STUMP - Chairman
4 GARY PIERCE
5 BRENDA BURNS
6 BOB BURNS
7 SUSAN BITTER SMITH

8 IN THE MATTER OF THE APPLICATION OF
9 COPPER VALLEY TELEPHONE, INC., AN
10 ARIZONA CORPORATION, FOR A HEARING
11 TO DETERMINE THE EARNINGS OF THE
12 COMPANY, THE FAIR VALUE OF THE
13 COMPANY FOR RATEMAKING PURPOSES,
14 AND TO INCREASE RESIDENTIAL RATES AS
15 NECESSARY TO COMPENSATE FOR THE RATE
16 IMPACTS OF THE FCC'S USF/ICC
17 TRANSFORMATION ORDER.

DOCKET NO. T-02727A-13-0458

DECISION NO. _____

OPINION AND ORDER

12 DATE OF HEARING: March 27, 2014
13 PLACE OF HEARING: Tucson, Arizona
14 ADMINISTRATIVE LAW JUDGE: Jane Rodda
15 APPEARANCES: Mr. Craig A. Marks, CRAIG A. MARKS, PLC,
16 on behalf of Applicant; and
17 Mr. Charles O. Hains, Staff Attorney, Legal
18 Division on behalf of the Utilities Division of the
Arizona Corporation commission.

19 **BY THE COMMISSION:**

20 * * * * *

21 Having considered the entire record herein and being fully advised in the premises, the
22 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

23 **FINDINGS OF FACT**

24 **Procedural History**

25 1. On December 19, 2013, Copper Valley Telephone, Inc. ("Copper Valley" or "Company")
26 filed with the Commission pursuant to A.R.S. §40-250 and Arizona Administrative Code ("A.A.C.")
27 R14-2-103 for an increase in its residential rates in order to compensate for the rate impacts of the
28

1 Federal Communication Commission's ("FCC") November 18, 2011, *USF/ICC Order*.¹ In its
 2 Application, Copper Valley requested that the Commission approve a basic local access line rate of
 3 the lesser of \$19.00, or the floor rate to be set by the FCC. In order to avoid the loss of federal
 4 funding for high-cost loop support, Copper Valley requested that the new rates go into effect by June
 5 1, 2014.²

6 2. In a Special Open Meeting on January 14, 2014, the Commission agreed to adopt a
 7 proposal by the Commission's Utilities Division ("Staff") that would not require Copper Valley to
 8 file all of the schedules normally required under A.A.C. R14-2-103 for rate applications because of
 9 the short time frame when new rates must be in effect under the FCC's directive.³

10 3. By Procedural Order dated January 15, 2014, a Procedural Conference was held on
 11 January 22, 2014, to discuss the timing of the hearing in this matter and other procedural matters.
 12 Copper Valley and Staff appeared through counsel and agreed on a process to govern this matter.

13 4. By Procedural Order dated January 23, 2014, the matter was set for hearing on March
 14 27, 2014, and other procedural guidelines established.

15 5. On January 29, 2014, Copper Valley docketed a "Supplemental Filing" that indicated
 16 the effect on Copper Valley's rate of return if the FCC's Wireline Competition Bureau set \$17.50 as
 17 the monthly residential rate floor to be in effect for June 1, 2014.⁴

18 6. On February 28, 2014, Copper Valley filed a "Proof of Mailing," and on March 7,
 19 2014, filed a "Revised Proof of Notice" that included an affidavit indicating that a copy of the notice
 20 of the hearing in this matter was mailed to its customers on February 14, 2014.

21
 22 ¹ FCC 11-161, Connect America Fund, WC Docket No. 10-90 et al., *Report and Order and Further Notice of Proposed Rulemaking*, 26 FCC Rcd 17663 (November 18, 2011) ("*USF/ICC Order*").

23 ² Six rural Arizona incumbent local exchange carriers ("ILECs") filed similar rate case applications around the same time
 24 period in order to comply with the FCC's *USF/ICC Order*. All six were represented by the same legal counsel and several
 25 of the carriers have common ownership. Although separate hearings were held for each entity, the proceedings were
 26 coordinated to promote efficiency. The dockets are: Docket No. T-02063A-13-0411 (Arizona Telephone Company);
 Docket No. T-01072A-13-0412 (Southwestern Telephone Company); Docket No. T-01923A-13-0428 (South Central
 Utah Telephone Association, Inc.); Docket No. T-02724A-13-0416 (Table Top Telephone Company, Inc.); Docket No.
 T-01847A-13-0457 (Valley Telephone Cooperative, Inc.); and Docket No. T-02727A-13-0458 (Copper Valley
 Telephone, Inc.). Arizona Telephone Company and Southwestern Telephone Company have the same parent company,
 and Valley Telephone Cooperative, Inc. owns Copper Valley Telephone, Inc.

27 ³ The streamlined filing, as recommended by Staff, included schedules showing: adjusted test year results; adjustments;
 Year-2 FCC *USF/ICC Order* impacts; rate base; working capital; and rate design.

28 ⁴ On January 30, 2014, Copper Valley filed a Notice of Errata to correct the calculated return at the estimated \$17.50 rate
 floor. At that time, the rural ILECs believed that \$17.50 would be close to the floor the FCC would adopt.

1 7. On March 14, 2014, Staff filed a Request for Suspension of the Procedural Schedule
2 on the grounds that the Wireline Competition Bureau had not yet determined the rate floor for June 1,
3 2014, which resulted in uncertainty about the level of the new rate floor and its implementation date.
4 According to Staff, on March 11, 2014, the Eastern Rural Telecom Association (“ERTA”), the
5 Independent Telephone & Telecommunications Alliance (“ITTA”), NTCA – The Rural Broadband
6 Association (“NTCA”), the National Exchange Carrier Association (“NECA”), the United States
7 Telecom Association (“US Telecom”), and WTA-Advocates for Rural Broadband (“WTA”)
8 (collectively the “Associations”) filed a request with the FCC asking that the effective date for the as
9 yet unannounced 2014 local service floor be extended from July 1, 2014, to January 2, 2015.⁵ Staff
10 believed that the FCC was likely to seek comment on the Associations’ request before it made any
11 determination on the rate floor and whether to extend the date for compliance. Because of these
12 developments Staff did not believe that it would be productive to proceed with this Application, and
13 requested a temporary suspension of the procedural schedule until the FCC both set the local service
14 rate floor and gave guidance to carriers and the states how to proceed, or the FCC ruled on the
15 Associations’ request for extension of time.

16 8. On March 17, 2014, Copper Valley filed a Response to Staff Request. Because the
17 effect of the pending motion before the FCC was unknown, Copper Valley could support Staff’s
18 request only with the understanding that if the FCC required compliance with a new benchmark by
19 June 1, 2014, or shortly thereafter, that Staff and the Hearing Division would work with the affected
20 companies to resume the hearings in order to avoid any potential loss of federal funds.

21 9. By Procedural Order dated March 18, 2014, Staff’s Request was denied in order to
22 provide the Commission with sufficient time to act on the Application if the FCC did not extend the
23 June 1, 2014 implementation date. Staff was directed to file its Staff Report by March 20, 2014.⁶

24 10. On March 20, 2014, Staff filed a Request for an Extension of Time to File Its Staff
25 Report until March 21, 2014. Staff’s request was granted by Procedural Order dated March 21, 2014.

26 ...

27 _____
28 ⁵ The FCC’s July 1 reporting date requires carriers to report the rates in effect on June 1.

⁶ The original Rate Case Procedural Order had set March 14, 2014, as the date to file the Staff Report.

1 11. On March 21, 2014, Staff filed its Staff Report, recommending approval of Copper
2 Valley's request to increase its residential local exchange service rate from \$14.00 to the lower of
3 \$19.00 or the 2014 local service rate floor established by the FCC. Staff further recommended that
4 the rate increase become effective on the rate floor compliance date, as determined by the FCC.

5 12. On March 21, 2014, Copper Valley filed Notice of New FCC Rate Floor. The
6 Company attached a copy of the FCC Public Notice DA14-384 dated March 20, 2014, in which the
7 FCC announced a rate floor of \$20.46. The FCC did not extend the June 1, 2014 compliance date, but
8 asked for comments on the Associations' petition to extend the compliance date.

9 13. The hearing convened as scheduled on March 27, 2014, before a duly authorized
10 Administrative Law Judge, at the Commission's offices in Tucson, Arizona. Copper Valley and Staff
11 appeared through counsel; Troy Judd, Chief Financial Officer, testified for Copper Valley; and
12 Pamela Genung, Executive Consultant II with the Utilities Division, testified for Staff. No members
13 of the public filed comments or appeared at the hearing to make public comment.

14 14. On March 31, 2014, Copper Valley filed Post-hearing Exhibits, consisting of pro
15 forma results of operations under two different rate scenarios, and a bill impact schedule.

16 15. On April 23, 2014, Copper Valley filed a Revised late-filed Exhibit A-3 to correct a
17 typo on the original exhibit.

18 16. On April 23, 2014, the FCC met in open meeting and adopted a *Seventh Order on*
19 *Reconsideration* of its *USF/ICC Order*.⁷ Statements made during the open meeting indicated that the
20 FCC was going to adopt a lower rate floor than previously announced, waive that portion of its rules
21 that would have required the new rate floor go into effect on June 1, 2014, and phase-in the rates over
22 a number of years. The FCC's open meeting discussion did not provide the specifics of its decision.

23 17. On April 28, 2014 and May 7, 2014, Copper Valley and Staff participated in two
24 telephonic procedural conferences to discuss the implications of the FCC's actions and whether the
25 Commission needed to approve new rates by June 1, 2014, in order to preserve the current levels of
26 federal high cost loop support ("FHCLS"). The Order adopted at the FCC's April 23, 2014 Open

27 ⁷ *Report and Order, Declaratory Ruling, Order, Memorandum and Order, Seventh Order on Reconsideration, and*
28 *Further Notice of Proposed Rulemaking*, WC Docket No. 10-90, WT Docket No. 10-208, WT Docket No. 14-58, WC
Docket No. 07-135, CC Docket No. 01-92 ("*Seventh Reconsideration Order*").

1 Meeting had not yet been released, and no party to this proceeding was certain of its specific
2 provisions. Staff recommended delaying Commission action on the rate application until the FCC's
3 actions were known. However, without knowing the details of the forthcoming order, Copper Valley
4 was reluctant to risk not having new rates in place by June 1, 2014. On or about May 8, 2014, based
5 on additional information received about the FCC's actions, Copper Valley agreed that the
6 Commission could delay taking action on its rate application until the FCC's Order was released.

7 18. The FCC's *Seventh Reconsideration Order* was released on June 10, 2014. This Order
8 grants a waiver of the provision that would cut FHCLS for carriers if their local residential rates are
9 \$14.00 or higher as of June 1, 2014. In addition, it establishes a phase-in of the floor rate that calls
10 for residential local exchange rates to be at or above \$16.00 by December 1, 2014, at or above \$18.00
11 by June 1, 2016, and at or above \$20.00 by June 1, 2017, in order to preserve current levels of
12 FHCLS.⁸

13 19. By Procedural Order dated July 1, 2014, the parties were directed to provide revised
14 substantive and procedural recommendations given the FCC's *Seventh Reconsideration Order*.

15 20. On July 31, 2014, Copper Valley and Staff each filed Responses to the July 1, 2014,
16 Procedural Order.

17 21. Copper Valley recommended that the Commission authorize it to increase its
18 residential rates to \$16.00 effective December 1, 2014, to the lower of \$18.00 or the new national
19 benchmark effective June 1, 2016, and to the lower of \$20.00 or any new national benchmark by June
20 1, 2017, without re-opening the hearing or requiring a new hearing. Copper Valley believed that
21 because the notice sent to residential customers concerning its rate request stated that it was
22 requesting new rates up to the lower of \$19.00 or the FCC's approved residential rate floor and also
23 provided that the final rates approved by the Commission may be higher or lower than the rates
24 requested by the Company, that no additional notice is required prior to Commission action on the
25 Application. Copper Valley recommended that it be required to provide notice of each rate increase
26 before it is implemented.

27
28 ⁸ *Seventh Reconsideration Order* at ¶ 80.

22. Staff recommended that the Commission adopt the following residential access line rates and implementation schedule: (a) \$16.00 effective December 1, 2014; (b) \$18.00 or the 2016 rate floor set by the FCC, whichever is lower, effective June 1, 2016; and (c) \$20.00, or the 2017 rate floor set by the FCC, whichever is lower, on June 1, 2017. Staff believed that because the hearing in this matter discussed various options the FCC might take, there is sufficient evidence in the record to establish that the proposed final \$20.00 rate and the various step increases are just and reasonable. Staff believes that the matter has been adequately noticed to residential customers for a rate up to \$19.00, and that within 30 days of the effective date of any Order in this matter, the Company should be required to re-notice customers informing them of the new rate floor of \$20.00 to be implemented in 2017, and also include the various step increases provided in the FCC's *Seventh Reconsideration Order* and their effective dates.⁹ In addition, Staff recommends that before each of the rate phase-ins, the Company should send another notice to customers at least 30 days prior to the effective date of the increase in rates. Finally, Staff recommends that the Company be required to file a full rate case for any future rate increases beyond the \$20 floor.

23. By Procedural Order dated August 7, 2014, the parties were requested to provide additional information about their positions.

24. On August 22, 2014, Copper Valley filed a Response to the August 7, 2014 Procedural Order, attaching updated schedules that corrected test year operating results and reflected the effect of the FCC's revised directive for the phase-in of local service rates.

25. On August 29, 2014, Staff filed its Response to the August 7, 2014 Procedural Order, addressing the reasonableness of the proposed rate phase-in schedule.

Background

26. Copper Valley provides telephone utility service to part of southeast Arizona, with four exchanges located in and around Morenci, Duncan, York, and Elfrida, as well as one exchange in Virden, New Mexico.¹⁰ In the test year ended November 30, 2012 ("test year"), Copper Valley

⁹ Staff recommended that the notice should also explain that if the new FCC surveys in 2016 and 2017 result in rate floors that are lower than the step increases contained in the FCC's *Seventh Reconsideration Order*, the step increases will also be lower.

¹⁰ Copper Valley Hearing Transcript ("Tr.") at 16-17. Virden is located adjacent to Duncan and is regulated by the Arizona Commission pursuant to a LATA exception.

1 had an average of 2,238 residential lines.¹¹ Copper Valley is a for-profit corporation, but is owned by
 2 Valley Telephone Cooperative, Inc., a non-profit member-owned cooperative that provides telephone
 3 service in southeastern Arizona.¹²

4 27. Copper Valley's current rates were authorized in Decision No. 73871 (May 8, 2013).¹³
 5 In that Decision, the Commission authorized Copper Valley Telephone to increase its local exchange
 6 service charge from \$12.00 to \$14.00 in order to comply with the FCC's *USF/ICC Order*.

7 28. Staff confirmed that Copper Valley is in compliance with Commission Orders.¹⁴

8 29. Copper Valley is a rate-of-return ILEC eligible to receive FHCLS.

9 30. On November 18, 2011, the FCC issued the *USF/ICC Order*, which provides for a
 10 transition away from then-existing federal universal service programs and most intercarrier
 11 compensation systems to a new Connect America Fund ("CAF"). In its *USF/ICC Order*, the FCC
 12 stated that by July 1, 2020, intercarrier compensation rates for rate-of-return companies will be
 13 reduced to zero. The CAF provides revenues to carriers as a means to help the transition away from
 14 access charges and reciprocal compensation. Recovery from the CAF will phase out over time at 5
 15 percent annually. In addition to CAF revenues, the *USF/ICC Order* allows ILECs to implement an
 16 Access Recovery Charge ("ARC") on the residential end user's bill. In the first year, starting July 1,
 17 2012, ILECs could impose an ARC in the amount of \$0.50 per residential line; in the second year
 18 (July 1, 2013 to June 30, 2014) the ARC could increase to \$1.00 per residential line; and in year
 19 three, the ARC could increase to \$1.50, up to a maximum ARC of \$3.00 in year six.

20 31. The *USF/ICC Order* also added new rules that reduce FHCLS to carriers by the
 21 amount that their flat-rate residential local service rates fall below a specified local service rate floor.
 22 The rate floor is intended "to ensure that states are contributing to support and advance universal
 23 service and that consumers are not contributing to the Fund to support customers whose rates are
 24 below a reasonable level."¹⁵ The rate floor includes state subscriber line charges, state universal

25 ¹¹ Ex A-1. The average residential line count through November 2013, dropped to 2,157.

26 ¹² Tr. at 6 & 12.

27 ¹³ Decision No. 73871 was as streamlined proceeding motivated by the FCC's *USF/ICC Order*. Prior to that, Copper
 Valley's rates were set in Decision No. 58763 (September 1, 1994) when Copper Valley acquired its exchanges from US
 West and was ordered to continue charging the rates then in effect.

28 ¹⁴ Ex S-1 Staff Report at 2.

¹⁵ *Seventh Reconsideration Order* at ¶ 73.

1 service fees, and mandatory extended area service charges, if any. The *USF/ICC Order* established
 2 the rate floor at \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the
 3 FCC's Wireline Competition Bureau.

4 32. Under the *USF/ICC Order*, in order to continue receiving FHCLS at its current levels,
 5 Copper Valley must increase its residential local rates to the FCC-mandated residential rate floors.
 6 Otherwise, the amount of FHCLS received will be reduced dollar-for-dollar for each customer by the
 7 difference between the existing local rate and the new rate floor. Pursuant to the FCC's *Seventh*
 8 *Reconsideration Order*, in order to preserve current FHCLS revenue levels, Copper Valley must
 9 increase its residential local exchange rate to \$16.00 by December 1, 2014, to \$18.00 by June 1,
 10 2016, and to \$20.00 by June 1, 2017.¹⁶

11 Rate Request

12 33. Copper Valley requests that it be authorized to raise its residential local exchange
 13 rates from \$14.00 to \$16.00 effective December 1, 2014, and thereafter to increase its residential
 14 local exchange rate to the lower of the FCC benchmark rate or \$18.00 as of June 1, 2016, and to the
 15 lower of the FCC benchmark rate or \$20.00 on June 1, 2017.¹⁷

16 34. According Copper Valley's schedules, at the end of the test year, the Company had an
 17 Arizona intrastate Fair Value Rate Base ("FVRB") of \$8,162,306.¹⁸

18 35. In the test year, Copper Valley had total Arizona intrastate operating revenues of
 19 \$3,128,602 (including FHCLS of \$1,758,820), and total Arizona intrastate operating expenses of
 20 \$2,791,522, resulting in operating income of \$337,080, a 4.13 percent rate of return on its reported
 21 Arizona FVRB.¹⁹

22 36. According to Copper Valley, if its current residential local exchange rate of \$14.00 is
 23 not increased to the FCC floor rate of \$16.00 by December 1, 2014, it would lose \$53,708 of FHCLS,
 24 which will reduce its operating income to \$304,603, a 3.73 percent rate of return on FVRB.²⁰ Based
 25

16 The FCC may revise the 2016 and 2017 floor rates based on new survey data. *Seventh Reconsideration Order* at ¶ 84.

17 Copper Valley's Response to Procedural Order filed July 31, 2014. At the hearing, Copper Valley was requesting to increase its local exchange rates to the announced FCC mandated floor of \$20.46 effective June 1, 2014.

18 Ex A-1.

19 Copper Valley August 22, 2014 Response.

20 *Id.*

on the test year, increasing Copper Valley's local rates to \$16.00 would preserve its current FHCLS, and increase its revenues by \$53,708, which would result in operating income of \$369,557, a 4.53 percent rate of return on its FVRB.²¹

37. According to Copper Valley, based on the test year, if its residential local exchange rates are increased to \$18.00 as of June 1, 2016, its revenue would increase by \$107,416 over test year revenues (or \$53,708 over revenues if the local rates are increased to \$16.00 on December 1, 2014), it would preserve its FHCLS, resulting in operating income of \$402,034, a 4.93 percent rate of return on FVRB.²²

38. According to Copper Valley, based on the test year, if its residential local exchange rates are increased to \$20.00 as of June 1, 2017, its revenues would increase \$161,124 over test year revenues (or \$53,708 over revenues if the local rates are increased to \$18.00 on June 1, 2016), it would retain its current FHCLS, resulting in operating income of \$434,511, a 5.32 percent rate of return on FVRB.²³

Staff Recommendations

39. Staff notes that because the Company's filing was based on streamlined requirements to meet the FCC's deadline for federal USF funding, it does not include rate adjustments typical of a revenue requirement analysis.²⁴ Given the particular circumstances of this case, Staff accepted Copper Valley's financial results as presented, and did not audit the numbers reported by the Company.²⁵

40. Based on the FCC's *Seventh Reconsideration Order*, Staff recommends that Copper Valley's residential local exchange rates be set at \$16.00 effective December 1, 2014; the lower of \$18.00 or the 2016 rate floor set by the FCC effective as of June 1, 2016; and the lower of \$20.00, or the 2017 rate floor set by the FCC effective as of June 1, 2017.²⁶

²¹ *Id.*

²² *Id.*

²³ *Id.*

²⁴ Ex S-1 Staff Report at 4.

²⁵ *Id.* at 3, 4, and 5.

²⁶ Staff's July 31, 2014 Response and Staff's August 29, 2014 Response.

41. In addition, Staff recommends that within 30 days of the effective date of this Order, the Company should be required to notify its customers of the new rate floor of \$20.00 to be implemented in 2017 and of the preceding step increases and their effective dates.²⁷ Staff further recommends that the Company file a full rate case under A.A.C. R14-2-103 for any future rate increase beyond the \$20.00 rate floor currently mandated for June 1, 2017.²⁸

42. At the time of the hearing, Staff argued that its then-recommended rate of \$19.00 as of June 1, 2014, was just, fair and reasonable, and necessary because:

(a) The increase is necessitated by the FCC's November 18, 2011 *USF/ICC Order*;

(b) The increase is necessary to preserve the entirety of the Federal USF funds that may flow to Copper Valley pursuant to the FCC's rules;

(c) The increase will minimize/reduce the amount of future rate increases; and

(d) The increase will allow Copper Valley to receive matching funds from the Federal USF.²⁹

43. Based on the revised schedules filed by Copper Valley on August 22, 2014, Staff concludes that if local rates are not increased to the FCC's phased-in benchmark rates, Copper Valley would lose FHCLS causing its rate of return to drop to 3.73 percent as of December 1, 2014, to 3.3 percent as of June 1, 2016, and to 2.94 percent as of June 1, 2017.³⁰

44. Based on the FCC's directives, the relatively small impact the increase has on Copper Valley's total revenues, and the negative impact on the Company's rate of return that would result from the loss of FHCLS, and because Copper Valley would not be over-earning after the increase, Staff believes that increasing Copper Valley's rates to the FCC's minimum benchmark floors between December 1, 2014 and June 1, 2017, results in fair and reasonable rates.³¹

...

...

²⁷ *Id.*

²⁸ Staff's July 31, 2014 Response.

²⁹ Ex S-1 Staff Report at 5-6; Tr. at 48-49.

³⁰ Staff's August 29, 2014 Response at 3.

³¹ Staff's August 29, 2014 Response. *See also* Ex S-1 Staff Report at 5 where Staff believed that the impact of increasing the Company's residential local exchange rate from \$14.00 to \$19.00 (the increase as requested in the initial application) would be *de minimus*.

45. Staff states that its recommendation in these unique circumstances should not be viewed as precedent for the processing of future rate case applications.³²

Conclusion

46. We concur with the parties that the March 2014 hearing on the Application anticipated and discussed a number of different scenarios that the FCC might take concerning its benchmark floor rate and considered potential rates ranging between \$14.00 and \$20.46, and that with the parties' updated recommendations, there is no need to re-open the hearing in this matter in order to make an informed decision based on substantive evidence.

47. Under the particular circumstances of this proceeding, although we have considered FVRB, a rate of return analysis alone is not helpful in setting rates for Copper Valley.

48. At the current \$14.00 local exchange rate, a typical basic residential phone bill is \$25.13 per month.³³ If local residential rates are increased to \$16.00, the basic bill would increase by \$2.22 to \$27.35; if local rates were increased to \$18.00, the current typical basic residential bill would increase by \$4.42 to \$29.55; and if local rates are increased to \$20.00, the current typical basic residential bill would increase by \$6.62 to \$31.75.³⁴

49. Neither Staff nor the Company submitted an analysis of the effect of losing FHCLS on Copper Valley's operations. However, the record shows that losing the FHCLS that would occur if Copper Valley's residential rates are not increased to the national average as determined by the FCC, would result in diminished operating income.

50. We find that under the particular circumstances of this proceeding, including that the FCC is imposing the same requirements on all ILECs receiving FHCLS, and that the incremental impact on Copper Valley's returns are *de minimus*, it is in the public interest to increase the Company's residential local exchange rate from the currently tariffed rate of \$14.00 to \$16.00 effective December 1, 2014; to the lower of \$18.00 or the FCC residential rate floor effective as of June 1, 2016; and to the lower of \$20.00 or the FCC's residential rate floor in effective as of June 1, 2017.

³² Ex S-1 Staff Report at 6.

³³ Copper Valley's August 22, 2014 Response; includes taxes.

³⁴ *Id.*

51. The rates being approved were requested by the Company, and the Company agrees that a phase-in of the increase to \$20.00 over a period of two and a half years, from December 1, 2014, to June 1, 2017, is fair and reasonable.

52. We find that it is reasonable to require the Company to file revised tariffs showing the rates authorized herein. Additionally, we find that Staff's recommendations concerning providing notice of the rates approved herein and their effective dates to be reasonable. Thus, we will direct Copper Valley to mail notice of the rate increases approved herein to its customers within thirty days of the effective date of this Order in a form approved by Staff. In addition, Copper Valley shall re-notify its customers by mail of the rates to become effective June 1, 2016, and June 1, 2017, at least thirty days in advance of their implementation dates.

CONCLUSIONS OF LAW

1. Copper Valley is a public service corporation within the meaning of Article 15 of the Arizona Constitution and A.R.S. §§40-250 and 40-251.

2. The Commission has jurisdiction over the Company and over the subject matter of this proceeding.

3. The Company provided notice of this proceeding in accordance with law.

4. Copper Valley's FVRB is \$8,162,306.

5. Under the particular circumstances of this proceeding, it is appropriate to increase Copper Valley's rates for residential local exchange service effective December 1, 2014, from the currently tariffed rate of \$14.00 to the FCC residential local exchange rate floor of \$16.00 in order to assure continued FHCLS for Copper Valley's services; and thereafter, to increase Copper Valley's rates for residential local exchange service to the lower of \$18.00 or the FCC's benchmark rate effective as of June 1, 2016; and to increase Copper Valley's rates for residential local service to the lower of \$20.00 or the FCC's benchmark rate effective as of June 1, 2017.

6. The rates and charges authorized herein are just and reasonable and promote the public interest.

7. The Company should file revised tariffs showing the rates authorized herein.

...

ORDER

IT IS THEREFORE ORDERED that Copper Valley Telephone, Inc. is authorized to increase its residential local exchange rates to \$16.00 effective for billings on or after December 1, 2014, the implementation date for the new local exchange service rate floor as established by the FCC.

IT IS FURTHER ORDERED that Copper Valley Telephone, Inc. is authorized to increase its residential local exchange rates to the lower of \$18.00 or the FCC's benchmark rate floor effective as of June 1, 2016, and to the lower of \$20.00 or the FCC's benchmark rate floor effective as of June 1, 2017.

IT IS FURTHER ORDERED that Copper Valley Telephone, Inc. shall, by October 31, 2014, file revised schedules of rates and charges consistent with the Findings of Fact and Conclusions of Law contained herein.

IT IS FURTHER ORDERED that Copper Valley Telephone, Inc. shall notify its affected customers of the rates approved herein and their implementation dates in a form approved by Staff either as an insert in its next regular bill, or as a separate mailing to be completed within thirty (30) days of the effective date of this Decision.

IT IS FURTHER ORDERED that Copper Valley Telephone, Inc. shall mail notice of the approved rate increases to its residential customers at least thirty days prior to the implementation of the new residential rates on June 1, 2016 and June 1, 2017.

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IT IS FURTHER ORDERED that any increases to Copper Valley Telephone, Inc. rates and charges beyond those approved herein shall be supported by a rate case filing pursuant to the requirements of A.A.C. R14-2-103.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____ 2014.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

JR:tv

1 SERVICE LIST FOR: COPPER VALLEY TELEPHONE, INC.

2 DOCKET NO.: T-02727A-13-0458

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